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SUBJECT: South Africa Reassesses its Energy Policy

REF: A) Pretoria 3012
B) Pretoria 3447

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¶1. (SBU) SUMMARY: South Africa convened a two-day Energy Summit September 24-25 to engage with stakeholders in order to reassess its energy policy as set forth in the white paper on energy adopted in ¶1998. Noting the likelihood that key assumptions may have changed since that time, representatives of the SAG Department of Minerals and Energy (DME) debated the nation's policies on electricity, nuclear power, energy security, renewable energy and other aspects of energy policy. There was broad consensus on the special role of the state, given South Africa's status as a "developmental state" and commitment to the provision of affordable energy services to its population. The Minister reaffirmed the SAG's intent to consider enrichment of nuclear fuel and processing of spent fuel as delineated in its draft nuclear energy policy, but stressed the SAG's commitment to nuclear non-proliferation. End Summary.

Energy Summit - Aiming at Improved Access

¶2. (SBU) The SAG Department of Minerals and Energy (DME) organized a September 24-25 Energy Summit in Johannesburg to foster stakeholder debate on the theme of "Energy Security for Sustainable and Shared Economic Growth for All." Deputy President Phumzile Mlambeni opened the Energy Summit with a pre-recorded message highlighting South Africa's special challenge as a developing country reliant on significant energy imports, with the objective of improving access to basic energy needs to its people. (Comment: The Deputy President was leading a delegation to Beijing. End Comment.)

¶3. (SBU) Minister of Energy Buyelwa Sonjica applauded the start of extensive stakeholder consultation aimed at finding ways to streamline efficacy of energy policy and to identify policy gaps that may have developed over time. Sonjica provided details on some specific initiatives, such as increasing nuclear power in the energy

mix and implementing incentives to encourage renewable energy and energy efficiency. The Minister attended the two full days of the summit, stressing that she was there to listen to stakeholders.

¶4. (SBU) Department of Energy Director General Sandile Nogxino used his speech to highlight key considerations for the SAG's reassessment of energy policy:

-- Increase access to affordable energy, with the goal of universal access by 2012;

-- Improve energy governance, building on creation of the National Energy Regulator of South Africa (NERSA) as an independent authority;

-- Stimulate economic development, competition, and "cost reflective pricing";

-- Manage environmental consequences, given that SA's electricity is currently 92 percent reliant on burning coal.

Nogxino emphasized that the importance of energy security had grown since 1998, noting that oil prices had increased from \$10 to over \$80 per barrel. The Department of Transportation Director General Mpoumi Mpofu emphasized the importance of greater coordination between energy and transportation planning.

Boost and Diversify Electricity Generation

¶5. (SBU) Both Department of Energy and Public Enterprise representatives outlined the SAG's plans to double existing 42,000 MW of installed capacity by 2027, by adding 20,000 MW of nuclear and 20,000 MW of other conventional sources. The SAG now targets 30 percent provision by Independent Power Producers (IPP) and many

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speakers applauded the recent award to an AES-led consortium as preferred bidder for the first IPP projects totaling 1,000 MW. At the time of the 1998 policy review, the SAG planned to unbundle and liberalize state-owned electricity company Eskom, as well as encourage IPP's, in a then environment of excess capacity. Since then, the SAG has been unsuccessful in providing incentives and a stable investment environment and now South Africa faces a shortfall in electricity capacity and reserve margin (the latter now less than 8 percent). The SAG has chosen state-owned Eskom to develop state-owned power projects and to serve as the single buyer of electricity for the grid.

Nuclear Power Quest

¶6. (SBU) Minister Sonjica emphasized in her speeches the target of a growing role for nuclear power in South Africa's energy mix as set forth in the recent nuclear energy policy (Ref A). Eskom will designate Westinghouse or Areva of France to construct 4,000 MW over the near-term, followed by an incremental 16,000 MW targeted by ¶2027. Sonjica stressed that a key aspect of the recent draft nuclear energy policy is that South Africa must benefit from its uranium reserves and be able to assure security of supply, including developing new Pebble Bed Modulator Reactor technology as a part of its long-term new build. Therefore, South Africa intends to maintain the option of developing low-grade enrichment of uranium and re-processing of spent fuel, while still maintaining all its non-proliferation obligations (Ref B). In a separate session focused on safety and safeguards, SAG experts on non-proliferation (including Department of Foreign Affairs Deputy Director General Abdul Minty) and the domestic nuclear regulator emphasized SA's commitment to non-proliferation and safety, while stressing South Africa's right to consider uranium enrichment.

Aim to Implement National Modeling

17. (SBU) One of the main themes of the Energy Summit was the desire to incorporate comprehensive modeling into planning efforts, drawing linkages with other sectors such as transport and public enterprises. In a separate meeting, Department of Energy Deputy Director General Nhlanhla Gumede expressed to Resource/Energy Officer great interest in cooperating with the U.S. Energy Information Agency (EIA) in adapting appropriate modeling approaches, building from his participation in the April 2007 visit to Washington D.C. As an immediate outcome of the visit, he arranged for EIA Deputy Administrator Susan Holt to address the summit, sharing U.S. best practices and experience with the National Energy Model (NEMS) approach. She cautioned that NEMS was specifically developed for the U.S. energy market, but noted that Canada had successfully adapted it.

Comment - the Role of the State

18. (SBU) A recurrent theme at the Energy Summit was grappling with the role of the State. There seemed to be broad consensus that the SAG bears a special responsibility as a "developmental state" to intervene in the sector to assure universal affordable access to energy for its population. Labor played a prominent role at the summit, always expressing skepticism about the ability of capitalism and market forces to deliver this goal. At one pause in the session focused on the role of the State, a number of labor representatives, all clad in dark leather jackets, and accompanied by the Energy Director General, broke out in spontaneous songs of solidarity. In the wake of increased concerns about energy security and perceived failed attempts at privatization and liberalization around the globe (read: California), the SAG now aims to maintain Eskom as national champion for electricity generation and single buyer, but intends to develop almost one-third of the market as alternative independent power producers to augment competition and diversification. AES'

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Black Economic Empowerment (BEE) partner Mbane Power stated that South Africa still did not exhibit a "welcoming environment" and stated that investors faced high risk and uncertainty in looking at the South African market.

BOST